

International Market Insight

Residential Market Update 2000

Wanwemol Charukultharvatch Christopher Mori

10/31/2000

1. Since the second quarter of 1999, the residential real estate market in Thailand has gradually recovered from the property crash that led to the country's economic crisis in 1997. Industry experts expect the market to reach equilibrium by 2004 when the market takes up the current surplus. The ongoing economic recovery (4.2 percent growth in 1999, 4.5 percent projected for 2000), low interest rates and reviving consumer confidence are key stimulants to the improving housing demand. High quality residential units have been the best performing sector of the post-crisis market, while lower quality, bargain-priced residential units have made a much slower recovery, even at hefty discount. The amendments of laws and regulations to allow foreign ownership of condominium projects has attracted foreign investment into the luxury residential apartment and serviced apartments sector in the metropolitan Bangkok area. The improvement in the upper end of the residential market has a positive effect on sales of building products, home decoration, and other related products targeting buyers in the middle to upper end market. Demand for imported building products will gradually increase along with the return of consumer purchasing power, and is a function of the country's full economic recovery. Market preference for an American life style provides a strong basis for the market penetration of applicable U.S. building products in Thailand, a market of 61.5 million people with more than 16 millions housing units. (Note: Due to lack of reliable information on the country's overall residential market, this report focuses mainly on the market in Bangkok, which also is the market that has the best potential for imported products.)

2. In 1999, sales of housing in Bangkok increased 15% from 1998 to 47,500 units. Demand is expected to reach 60,000 units this year and 77,000 units in 2001, according to the Bangkok Bank Research Department. The number of vacant houses in Bangkok is expected to decline 10% from 329,379 units in 1999 to 295,422 units this year. The detached housing sector is doing better than the condominium sector, perhaps because the condominium ownership concept is still a relatively new to the majority of the market, who prefer to own house. Completed projects have better chance of selling than units under construction. Current buyers are no longer willing to buy off-plan units the way they had at pre-crisis years. The economic crisis caused bankruptcy in a large number of projects and buyers are skeptical of property developers' ability to deliver completed units. Quality houses at affordable prices have the best advantage in the current market condition, where there is an excess supply for a still depressed consumer demand.

Housing Demand				
Type	1998	1999e	2000f	2001f
Single Home	6,614	8,900	10,000	14,500
Twin Home	1,095	1,200	1,700	2,000
Town House	29,174	30,400	38,800	49,200
Shop House	4,301	7,000	9,500	11,300
Total	41,184	47,500	60,000	77,000
Source: Research Department, Bangkok Bank				

3. Since the late 80's, excessive growth in supply of new residential units in Bangkok and Greater Bangkok extended nearly a decade. Supply reached its peak in 1994 when 253,159 residential units were launched, representing 124% increase from previous year. An average of 86,572 residential units was launched in the market each year during 1987-1991, while during 1992 to 1996 an average annual supply of 150,000 units was launched in the market.

Residential Supply in Primary Market							
	1994	1995	1996	1997	1998	1999	Jan-Jun 2000
Detached House	38,859	23,245	13,790	5,635	199	404	132
Town House	92,431	48,335	19,539	5,137	272	208	230
Condominium	102,492	48,661	20,167	28,294	0	60	0
Others	19,377	21,782	11,413	2,234	600	685	10
Total	253,159	142,023	64,909	41,300	1,071	1,357	372
<i>Source: Government Housing Bank</i>							

According to the survey made by the Government Housing Bank from 1990 to April 1998, new residential supply in Bangkok and Greater Bangkok totaled 1,132,333 units. There were 768,596 units completed, 318,375 units under construction and 45,362 units advertised by developers. There was an estimated 264,084 unsold units owned by developers, and 400,000 units in the resale market that most of them are owned by individuals who most of them bought residential units for speculative purpose.

Residential Stock in Bangkok & Greater Bangkok 1996-1999				
	1996	1997	1998	1999
Residential Supply in Secondary Market	297,000	334,000	424,000	400,000
Residential Supply in Primary Market	64,909	41,300	1,071	1,357
Total Residential Stock	2,957,000	3,117,000	3,201,000	3,287,000
<i>Source: Government Housing Bank</i>				

4. Full recovery of the country's property market will depend largely on restructuring of the sector's non-performing loans and revival of real demand. As of July 2000, non-performing loans in the property sector accounted for 18.3 % of the total non-performing loan in the banking sector (approximately 290 Billion Baht). Speculative demand for new real estate units was one of the major drivers of the prolonged expansion of the property sector in Thailand in the early 1990's. It led to over-lending by the banking sector, and the resultant crash of the property boom was one of the major causes of Thailand's economic crisis in 1997. The Royal Thai Government has introduced several rescue packages to stimulate demand in the property sector over the past two years. Some of these measures are listed as follows:

- Allow 100% foreign ownership of condominium projects from the previous limit of 49% foreign ownership
- Extend property lease to 50 years from 30 years, renewable for an additional 50 years.
- Allow foreigners are who bring in investment of 25 million Baht to acquire up to 1 rai for residential purposes
- Reduction of property transfer fee to 0.01% from 2%
- Reduction of tax on commercial sales of property to 0.11% from 3.3%
- Provision of 15 Billion Baht for the National Housing Authority to rehabilitate partly-built residential projects.

It will require some period of time for the Government's measures to yield their full effect to assist the property sector, and for full recovery and correction of the sector's fundamental weakness. However, industry experts believe oversupply in the residential market will be eased by next year, and the Thai Government and other concerned private agencies are working on measures to correct underlying weakness of the sector.

INTERNATIONAL COPYRIGHT, U.S. & FOREIGN COMMERCIAL SERVICE AND U.S. DEPARTMENT OF STATE, 2000. ALL RIGHTS RESERVED OUTSIDE OF THE UNITED STATES.